

**COUNTY OF MILWAUKEE**  
**Inter-Office Communication**

**Date:** May 6, 2003  
**To:** Supervisor Richard D. Nyklewicz, Jr., Chairman, Committee on Finance and Audit  
**From:** Jerome J. Heer, Director of Audits  
**Subject:** Potential Revenue Deficit in Inmate Telephone Commission Revenue (File No. 03-12)

## **Background**

In a memo dated January 24, 2003 to the County Executive and the Chairman of the Finance and Audit Committee, the Public Safety Fiscal Administrator reported a potential 2003 deficit of \$1,200,000 related to inmate telephone commission revenue for the House of Correction (HOC) and the Sheriff's Department. This deficit estimate was based on actual completed telephone call volume experienced from April through December 2002. During this period, the average completed telephone call volume had decreased by more than 40% from the average number of completed calls experienced during the previous 12 months prior to transitioning to the new telephone service contractor, Sprint.

At its February 13, 2003 meeting the Finance and Audit Committee directed the Department of Audit to review the circumstances of the projected deficit.

Under the current contract, Sprint pays Milwaukee County a commission of 51.3% of all local and intra-lata (long distance) call fees. The fee is \$3.30 per local call and \$3.30 plus \$0.25 per minute for long distance calls.

Problems associated with inmate telephone revenue have an extensive history dating back to a contract with Ameritech from 1990 through 1995. A review conducted in 1994 by a consultant concluded that Ameritech was unable to control the length of inmate calls, resulting in less revenue than anticipated under the commission structure in effect at that time. In 1996, the County contracted with a different vendor, Global Tel-Link. During each of the next three years, HOC continued to incur deficits in the inmate phone revenue account. A review by the Department of Audit in 1998 showed that Global Tel-Link used stricter criteria for 'blocking' calls than permitted by contract, resulting in payments of an additional \$56,000 to the County. Blocking calls is standard practice in the industry to prevent inmates from completing calls to specific telephone numbers. Calls may be blocked for a variety of reasons, including failure to pay telephone charges, to honor requests of individuals, or to honor court orders. Increasing the number of blocked calls lowers completed call volume, upon which telephone commissions are paid to the County.

Ameritech was awarded a new contract beginning in 1999. Once again HOC experienced a revenue deficit. An audit review in 2000 identified a vendor software problem resulting in an under-reporting of inmate call volume. Ultimately, Ameritech paid the County an additional \$405,850 in commissions and the County terminated the contract. The current contract was negotiated with Sprint, with services beginning in April 2002.

**Table 1** shows the budgeted and actual revenues for inmate telephone calls at the HOC and the

<b>Table 1</b> <b>Inmate Telephone Commission Revenue</b> <b>Budgeted and Actual, 1998—2002</b>				
	<u>HOC</u>	<u>CJF</u>	<u>Total</u>	<u>Variance</u>
1998 Budget	\$1,080,000	\$1,791,500	\$2,871,000	
1998 Actual	756,871	1,342,470	2,099,341	( \$772,159)
1999 Budget	1,392,000	1,358,000	2,750,000	
1999 Actual	1,000,000	1,000,068	2,000,068	( 749,932)*
2000 Budget	1,392,000	1,358,000	2,750,000	
2000 Actual	1,386,417	1,358,789	2,745,206	( 4,794)**
2001 Budget	1,392,000	1,358,000	2,750,000	
2001 Actual	1,978,885	2,006,603	3,985,488	1,235,488***
2002 Budget	1,342,000	1,358,000	2,700,000	
2002 Actual	1,110,583	1,338,175	2,448,758	( 251,242)
* 1999 revenue includes \$74,000 in guaranteed minimum revenue.				
** 2000 revenue includes \$405,850 in commissions paid to the County as a result of audit findings.				
*** 2001 revenue includes \$500,000 contract settlement plus approximately \$200,000 in additional revenue related to a signing bonus.				
Source: Milwaukee County Sheriff's Department.				

CJF during the past five years.

## Inmate Telephone Call Volume

To perform our current review, we obtained inmate telephone call volume data for the time period July 2001 through December 2002. With telephone services under the Sprint contract beginning in early April 2002, this time period provided approximately equivalent time frames under the Ameritech and Sprint systems.

Under Sprint, the total number of calls *attempted* each month decreased steadily at both the HOC and the Criminal Justice Facility (CJF) during 2002. Detailed records show the volume of calls attempted decreased 45% at the HOC and 42% at the CJF from their high point in April 2002 to their low point in December 2002. For those same months, the volume of calls *completed* each month also decreased, by 49% at the HOC and by 40% at the CJF.

To provide assurance that all calls are actually recorded in the vendor's computer monitoring system, we compared entries in manual logs of inmate calls maintained at the House of Correction against those recorded in the computer system. In all cases, the calls manually logged were verified as recorded in the computer system.

Based on those tests and discussions with Sprint representatives and County staff, the decreases in call volume appear to primarily be the result of two factors:

1. The average inmate population at the HOC and the CJF has decreased by 11.4% and 4.1%, respectively, for the period April through December 2002 vs. the same period in 2001. This decrease in population explains a small portion of the revenue shortfall.
2. Sprint has taken a more aggressive approach to blocking telephone numbers than did its predecessors. Telephone calls blocked by Sprint have increased from 13.8% of all attempted calls in April to 31.5 % in December. In contrast, records show that Ameritech blocked only about 3.5% of the calls attempted during the latter part of its tenure. As shown in **Table 2**, the reason for the blocks initiated by Sprint can be divided primarily into three classifications:

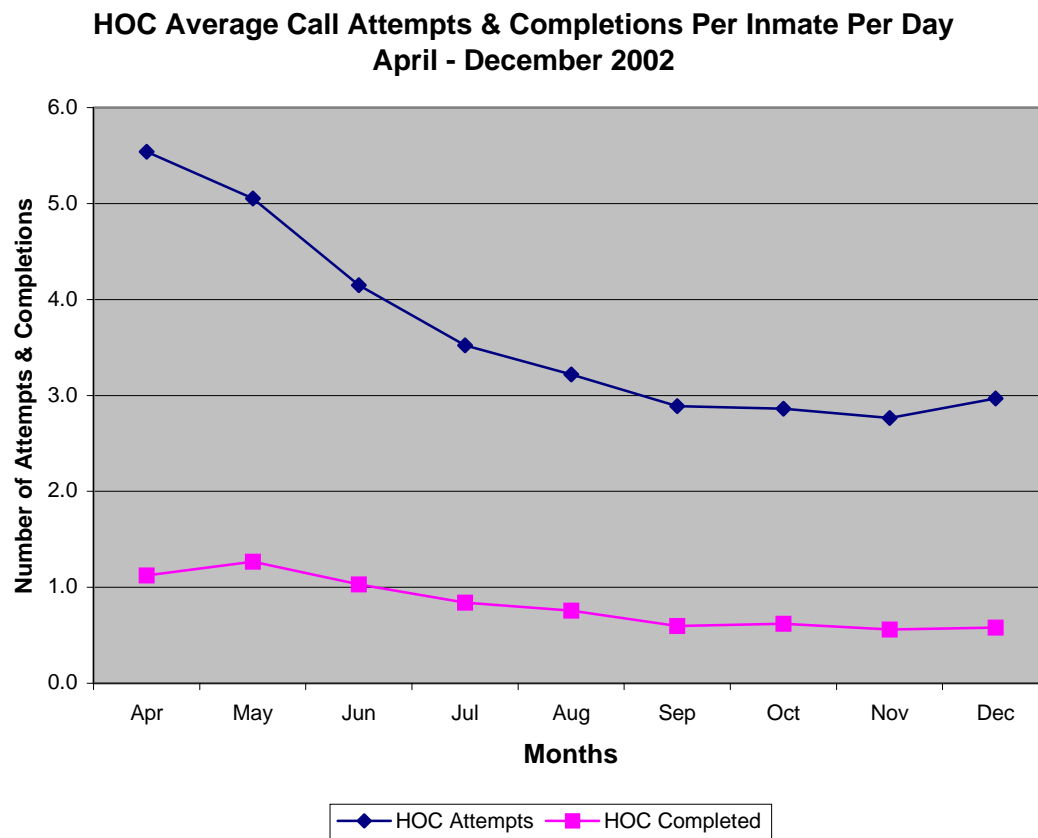
**Table 2**  
**Blocked Calls Under Sprint Contract**

	<u><b>April</b></u>	<u><b>December</b></u>
Poor Credit or Payment History	4.2%	16.6%
Called Party Uses Local Service Provider	8.4%	12.0%
Called Party Requested Block	1.2%	2.9%
<b>Total</b>	<b>13.8%</b>	<b>31.5%</b>

The first category, which is the majority of the blocks, is related to telephone numbers of individuals who have a poor credit or payment history either with Sprint or with some other service provider in the past. The next highest category of blocks are applied because the individuals the inmates attempted to call have chosen to use a local service provider that is unwilling or unable to process other company's charges. Therefore, if these calls were allowed, there would be no mechanism in place to collect the charges. Also included in this category are cell phone and 800 numbers. The final category is applied upon the request of the individual receiving the call. The called party can place the block through the telephone keypad or may have activated a feature available to them called privacy manager that prohibits collect calls.

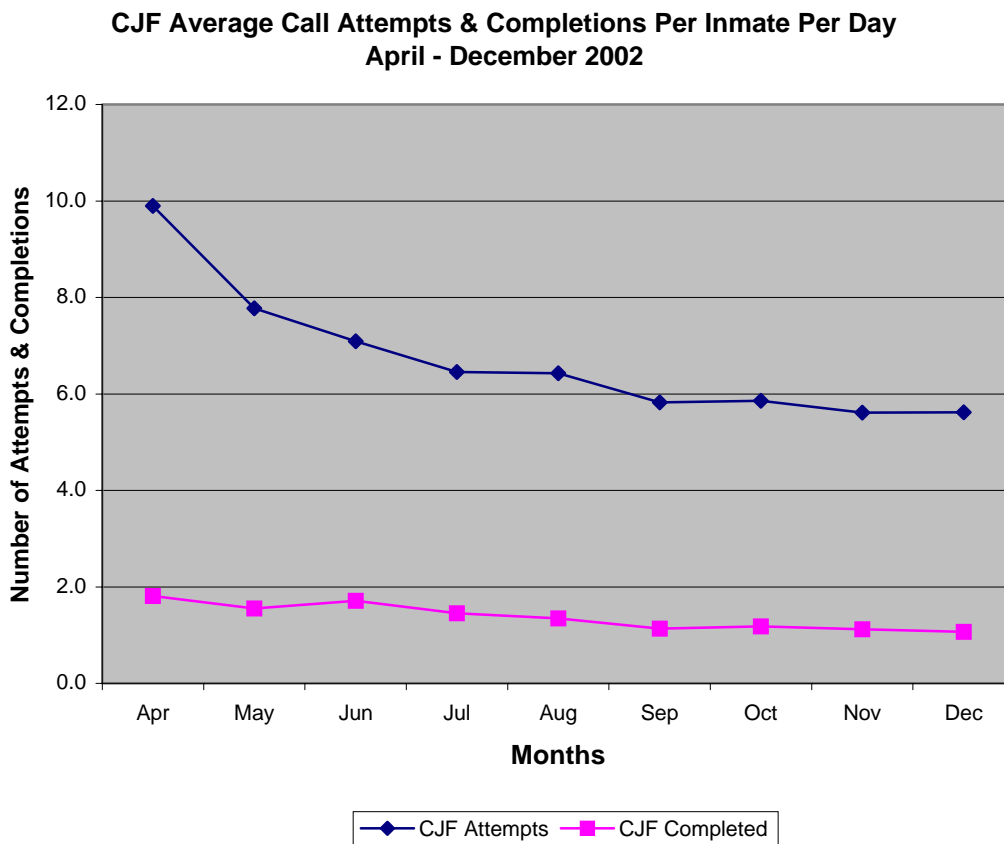
**Figures 1** and **2** illustrate the declining trends in both average daily calls attempted and completed by inmates at the HOC and the CJF, respectively, under the Sprint contract in 2002. As the trend lines show, the number of call attempts made decreased as the futility of calling blocked telephone numbers became apparent to the inmates.

**Figure 1**



As shown in **Figure 1**, daily calls attempted per inmate at the House of Correction declined from an average of 5.5 in April 2002 to 3.0 in December 2002. During that same period, daily calls completed per inmate declined from an average of 1.1 to 0.6.

**Figure 2**



**Figure 2** depicts a similar trend at the Criminal Justice Facility. Daily calls attempted per inmate at the Jail declined from an average of 9.9 in April 2002 to 5.6 in December 2002. Daily calls completed per inmate declined from an average of 1.8 to 1.1 during the same period.

As shown in **Figures 1** and **2**, the average number of daily calls per inmate at both facilities appears to have leveled off to a fairly consistent, but lower, figure. Given the absence of any identified problem with the recording of call activity, it would appear that an adjustment to past revenue projections from inmate telephone commissions is in order.

## Conclusions and Recommendations

Based on our review of the computer monitoring system and call volume data, as well as discussions with Sprint personnel and staff from the Sheriff's Department and House of Correction, we have concluded that revenue projections for inmate call commissions contained in the 2003 Budget will not be achieved. We have determined that this is a direct result of reduced inmate call volume, and not with any identified problem with recording inmate call activity. To a small extent, the reduced volume of inmate telephone calls is a function of reduced inmate population. A much more significant reason for reduced inmate call volume is a dramatic increase in the percentage of call attempts blocked by the vendor for a variety of reasons, primarily related to the inability to collect charges. While the County contract does not specify the level of bad debt that must be assumed by the vendor, it is in both the County's and the vendor's best interest to maximize call volume to legitimately collectible accounts. Consequently, we believe the currently stable inmate call volume is the level upon which realistic revenue projections for telephone commissions should be based.

Based on current inmate census projections provided by the Sheriff's Department, we estimate telephone commission revenue for 2003 will total approximately \$1,300,000, or about \$1,250,000 less than the \$2,550,000 included in the 2003 Budget.

An option for consideration in future budget years is the implementation of a pre-paid system whereby inmates establish individual accounts which can be drawn down for telephone calls. However, it is not clear what impact such a system would have on inmate call volume. As a result, we are not recommending the establishment of a pre-paid system at this time.



Jerome J. Heer

JJH/DCJ/cah

cc: Finance and Audit Committee Members  
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